

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2015

Docket No. ACR2015

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 2-5, 7, 9, 11 AND 13-17 OF
CHAIRMAN'S INFORMATION REQUEST NO. 12

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 12, issued on February 9, 2016. Each question is stated verbatim and followed by the response. The responses to Questions 1, 6, 8, 10, and 12 are still being prepared.

Respectfully submitted,
UNITED STATES POSTAL SERVICE

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February 17, 2016

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2. The Postal Service states that it evaluated Periodicals, including newspaper processing using LSS tools and Kaizen Events during FY 2015 to identify mail flow problems. FY 2015 ACR at 27-28.
- a. Please state if the evaluation has concluded or is ongoing.
 - b. If the evaluation is ongoing, please provide an estimated timeframe for conclusion.
 - c. Please provide the standard workflow developed for Periodicals that was developed from the Kaizen Events.
 - d. Please estimate the percentage of Periodicals mailpieces that adhere to the standard workflow model developed from the Kaizen Events.
 - e. Does the standard workflow developed from the Kaizen Events supersede the "Periodicals Processing SOP/Policy" provided in Docket No. ACR2012, Library Reference USPS-FY12-46, file "ChIR5.Q13.PeriodicalsSOP.pdf," February 6, 2013? If not, please provide an updated version of the "Periodicals Processing SOP/Policy."

RESPONSE:

- a. The evaluation is ongoing.
- b. The Kaizen events are part of an ongoing process to use Lean principles to drive continuous improvement, and will continue as long as the evaluations benefit service improvements.
- c. The standard workflow documents are currently under Postal Service review. The standard workflow will be available for distribution and implementation at a later date.
- d. As stated in response to question 2(c), the standard workflow is currently under review. Therefore, the information requested is not available at this time.
- e. The Periodicals Processing SOP is currently still in effect. When completed, the standard workflow being developed as a result of the Kaizen events will likely result in a revision to the SOP.

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- 3.** If the evaluation referred to in Question 2 has concluded, please provide the outcome and any recommendations related to improving operational efficiency for newspapers. Please identify any recommendations that have been, or will be, implemented and indicate when such implementation occurred or is planned to occur. Please identify any obstacles to implementing any recommendation that has not been implemented and for which no current plans have been made to implement.

RESPONSE:

As stated in response to question 2(a), the evaluation is ongoing.

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4. The Commission has previously directed the Postal Service to report on the progress in developing metrics to assess the cost-savings impact of operational strategies. See Docket No. ACR2014, Annual Compliance Determination Report, March 27, 2015, at 40 (FY 2014 ACD).
- a. Please discuss any metrics the Postal Service has developed or is developing to assess the cost savings impact of operational strategies for Periodicals for FY 2015.
 - b. Please confirm that the Postal Service plans to develop metrics to assess the cost-savings impact of operational strategies for Periodicals.
 - i. If confirmed, please discuss the plan to develop metrics.
 - ii. If not confirmed, please identify any obstacles to developing metrics.

RESPONSE:

- a. The Postal Service has not developed and is not developing metrics to assess the cost-savings impact of operational strategies for Periodicals for FY 15.
- b. Not confirmed.
 - i. Not applicable
 - ii. The Postal Service has identified a number of obstacles to development of metrics to assess the cost-savings impact of operational strategies for Periodicals. These obstacles include the inability to isolate the effect of the operational change itself from other causal factors like mail volume changes and mail mix changes, all of which are beyond the control of the Postal Service. In addition, due to operational efficiencies, Periodical mail is routinely co-processed with other classes of mail further impeding the ability of the Postal Service to create a metric to specifically link operational changes to cost-savings for a particular product or class.

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5. Please refer to the Responses of the United States Postal Service to Questions 1-23 of Chairman's Information Request No. 4, January 22, 2016, questions 9 and 10 (January 22, 2016, Responses to CHIR No. 4) in this proceeding.
- a. Please confirm that the Postal Service plans to study if the FY 2015 pricing incentives encouraged customers to enter more Carrier Route pallets in non-Flats Sequencing System (FSS) zones or to prepare Periodicals more efficiently.
 - b. If confirmed, please discuss the study plans.
 - c. If not confirmed, please identify the obstacles to conducting a study or studies.

RESPONSE:

- a. Not confirmed.
- b. Please see the response to subpart a.
- c. A major obstacle in conducting such a study is not knowing what the preparation would have been like in the absence of pricing incentives. The Postal Service will, however, be monitoring the changes in billing determinants and mail preparation to see if changes in preparation are consistent with the changes these price incentives were meant to induce, i.e., an increase in the preparation of Carrier Route pallets, the reduction in the proportion of Carrier Route bundles on non-Carrier Route pallets, as well as an increase in the proportion of Carrier Route bundles on pure Carrier Route pallets.

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7. In the FY 2015 ACR, the Postal Service states that in FY 2015 it conducted an analysis of outgoing mixed states processing. FY 2015 ACR at 28.
- a. Please describe the analysis conducted by the Postal Service.
 - b. Please provide examples of mail being directed outside of the corresponding Network Distribution Center (NDC).
 - c. Please explain how the Postal Service plans to align mixed states processing facilities with NDC network service areas.

RESPONSE:

- a. The Postal Service analyzed outgoing mixed states facilities for all 3-digit ZIPs and then compared the ZIPs to the Network Distribution Center (NDC) service area. The analysis revealed 211 3-Digit ZIPs mismatches between outgoing MXD P&DC and the NDC service area.
- b. One example of mail being directed outside a corresponding NDC was ZIP range 434-436, 465-468 and 480-497. These ZIPs were being directed to MXD Pittsburgh, Pennsylvania, when they should have been directed to MXD Detroit, Michigan.
- c. The Postal Service made corrections to the labeling list effective January 1, 2016. All outgoing MXD processing facilities are now aligned with corresponding NDC networks.

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9. Please refer to the January 22, 2016, Responses to CHIR No. 4, question 18 in this proceeding.
- a. Please describe the status of the Postal Service's evaluation of whether to revise Domestic Mail Manual (DMM) bundle preparation requirements.
 - b. Please state if the evaluation is concluded or ongoing.
 - c. If the evaluation has concluded, please provide the outcome of the evaluation and any recommendations. Please state which recommendations have been implemented. If any recommendations have not been implemented, please identify the obstacles to implementing each such recommendation.
 - d. If the evaluation is ongoing, please provide an estimated timeframe for conclusion.

RESPONSE:

- a. The Postal Service continues to evaluate opportunities to revise DMM bundle preparation requirements as part of an ongoing consultative process involving both internal and external stakeholders.
- b. As stated above, the evaluation is an ongoing initiative.
- c. There are no current recommendations to report as any potential outcomes are still in the discussion phase.
- d. There is no current timeframe for conclusion as the Postal Service routinely evaluates opportunities to revise mail preparation requirements including bundle preparation requirements through joint Postal Service and Industry committees and workgroups.

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- 11.** Please confirm that the Postal Service has not developed a process to measure either the cost or service impact of FSS scheme bundles. See FY 2015 ACR at 25. If not confirmed, please identify and describe the process developed by the Postal Service and provide all analyses of each such process.

RESPONSE:

The Postal Service provided FY 2015 mail processing costs for FSS rated mail in USPS-FY15-11, and delivery costs for mail destinating in FSS zones in USPS-FY15-19. However, the Postal Service did not measure the cost impact of FSS scheme bundles, as doing so requires the Postal Service to know how the mail would have been prepared in the absence of FSS preparation requirements. Utilizing the Service Performance Measurement (SPM) system, the Postal Service is able to compare the processing scores of FSS scheme mail relative to mail that is not prepared as FSS scheme.

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- 13.** In the FY 2014 ACR, the Postal Service stated that its Flat Recognition Improvement Program ("FRIP") – Software Upgrade would increase address recognition rates and reduce error rates, which would result in improved customer service and reduced keying hours as well as manual distribution operations. See Docket No. ACR2014, Notice of the United States Postal Service of Filing Partial Supplemental Information in Response to Order No. 2313, January 15, 2015, Attachment A at 8-9.
- a. Please provide the increased address recognition rate that resulted from the FRIP – Software Upgrade for FY 2015.
 - b. Please provide the reduced error rates that resulted from the FRIP – Software Upgrade for FY 2015.
 - c. Please provide metrics demonstrating the improved customer service that resulted from the FRIP – Software Upgrade for FY 2015.
 - d. Please provide the amount of reduced keying hours that resulted from the FRIP – Software Upgrade for FY 2015.
 - e. Please identify the reduced manual distribution operations that resulted from the FRIP – Software Upgrade for FY 2015.
 - f. Please explain if the Postal Service anticipates any future FRIP – Software Upgrades, and the estimated impact of any upgrade.

RESPONSE:

- a. FRIP Optical Character Reader (OCR) finalization rate increased by 50 percent and depth-of-sort rate increased by 36 percent.
- b. The overall system error rate was reduced by 0.05 percent.
- c. Increased finalization and depth-of-sort reduce manual re-handlings and minimize potential service delay. In addition, reduced system error rate improves sort quality, thus providing improved customer service.
- d. Improved OCR finalization and depth-of-sort rates resulted in a reduction of approximately 350,000 annual work hours.
- e. Improved recognition and reduced errors saved the Postal Service 34,000 annual work hours in manual operations in plants and delivery units.

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- f. The Postal Service is pursuing additional software releases to further decrease error rates, improve depth-of-sort, and reduce Remote Encoding Center (REC) keying workload. Specific impacts from these potential upgrades have not been determined.

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- 14.** In the FY 2014 ACR, the Postal Service stated that “Management from the 46 FSS sites had participated in FSS refresher training” and that the training had focused on operational performance, proper mail flow, and “At Risk” indicators to help improve key performance metrics. See Docket No. ACR2014, Notice of the United States Postal Service of Filing Partial Supplemental Information in Response to Order No. 2313, January 15, 2015, Attachment A at 10.
- a. Did similar training occur in FY 2015?
 - b. If such training did occur, please list what topics were covered in the FY 2015 training.
 - c. If training did not occur in FY 2015, please explain the rationale for not conducting such training.

RESPONSE:

- a. Similar training did not occur in FY 2015.
- b. Non-Applicable
- c. The Postal Service determined that training was necessary FY 2014 because skills were lost due to retirement and attrition, and the Postal Service identified an opportunity for increases in operational performance. The Postal Service continuously evaluates the need for additional training.

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15. On page 54 of its FY 2015 ACR, regarding the PHI Acquisitions, Inc. (PHI) Negotiated Service Agreement (PHI NSA), the Postal Service stated "using the Commission's preferred methodology, as also shown in USPS-FY15-30, the net value of the [PHI] NSA to the Postal Service's net financial position over the contract year was \$283 thousand." In Library Reference USPS-FY15-30, Excel file "FY15 30 ACR_NSA_2015," Tab "4_Commission's Methodology," Cell "D14," the Standard Mail elasticity used to calculate the net value of the agreement is - 0.888. On January 20, 2016, the Postal Service provided FY 2015 elasticities, and updated the model specification used for elasticities. See Market Dominant - United States Postal Service's Demand Equation Estimation and Volume Forecasting Methodologies, January 2016, Word file "DemandEquationTables(md)," January 20, 2016. The updated elasticity for Standard ECR is -0.822. *Id.* at 15. The revised model includes a specification for Standard Regular Machineable Non-Letters (a more detailed estimate than Standard Regular as a whole). The elasticity for Standard Regular Machineable Non-Letters is -0.452. *Id.* at 14.
- a. Please confirm that 98.827 percent of the total volume mailed by PHI in the contract year was mailed as Standard Mail Flats Carrier Route. *Id.* at Tab "2_MC2014-21 PHI NSA," Cells "J28:J35," and 1.173 percent of the total volume mailed by PHI in the contract year was mailed as Standard Mail Flats Pre-Sort Regular. *Id.* at Tab "2_MC2014-21 PHI NSA," Cells "J11:J24." If not confirmed, please explain.
 - b. With the volume distribution from part a. and the FY 2015 elasticities, please confirm that the FY 2015 Standard Mail elasticity for PHI is -0.818. If not confirmed, please explain.
 - c. If part b. is confirmed, please provide an updated calculation of the net value of the PHI NSA.

RESPONSE:

- a. Confirmed.
- b. Confirmed that using the volume weights from the contract year, applied to the FY 2015 Standard Mail elasticity estimates, yields a volume-weighted estimate for the PHI elasticity of -0.818.

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- c. Applying the elasticity estimate from part b. to the net value calculation for the PHI contract year would yield a net value estimate of approximately \$112,000.

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- 16.** As of the end of FY 2015, please provide the number of POSTPlan offices categorized as:
- a. Level 2;
 - b. Level 4;
 - c. Level 6; and
 - d. Level 18 (upgraded as per POSTPlan).

RESPONSE:

- a. Level 2 – 1837
- b. Level 4 – 6668
- c. Level 6 – 4289 (includes PTPO's and RMPO's)
- d. Level 18 (upgraded as per POSTPlan) – 4870

The answer to part d (Level 18s upgraded) is made up of two different evaluations. In FY2012, 4561 sites were upgraded to level 18. In FY2014, another 309 sites were upgraded to level 18 using FY2013 data. The sum is therefore 4870, which represents the cumulative total of all Level 18 upgraded facilities since FY2012.

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17. Please provide the total number of POStPlan offices converted in FY 2015, if different from the sum of question 16 a-d, above. If the sum of 16 a-d differs from the total number of POStPlan offices converted in FY 2015, please explain why they are different.

RESPONSE:

Total sites converted in FY2015 equal 3370. This number differs from the number of sites identified in question 16 of this Information Request due to implementation of conversions since FY2012. However, if the Commission's intent was to obtain information regarding the numbers of POStPlan offices that had been converted *through* FY2015, the total would be 12,794, which represents a cumulative total for each year conversions were completed, less any facilities which were suspended or closed.